HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Ottawa*

CANADA MORTGAGE AND HOUSING CORPORATION

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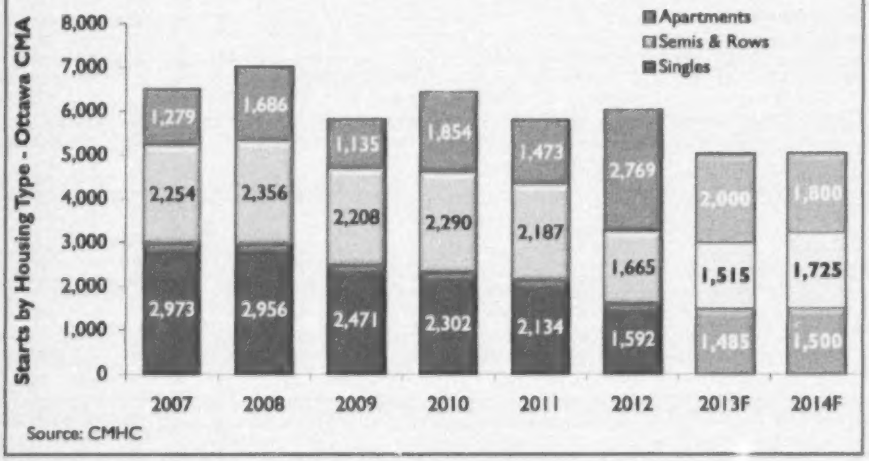
Market Outlook at a Glance

- MLS® sales in the Ottawa CMA will soften this year but pick up once more in 2014, as first-time-homebuyer activity gradually strengthens.
- Ottawa prices will post modest growth this year, as market supply and demand conditions remain balanced.
- After a significant spike in construction in 2012, new home starts are set to moderate this year by 17 per cent but will pick up slightly next year.

Figure 1

Housing Starts Consistent with Demographic Needs



Source: CMHC

*Ontario part of Ottawa-Gatineau CMA

The forecasts included in this document are based on information available as of April 26, 2013.

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Resale Market

Sales to soften this year before rebounding in 2014

Existing home sales in the Ottawa CMA are expected to soften in 2013 before seeing a gradual pick-up in 2014. Sales have begun to moderate since September 2012. In particular year-to-date condominium resale activity has slowed, but to a lesser extent than freehold sales. To April, freeholds have seen their sales drop approximately 9 per cent compared to a year earlier vs. almost a 5 per cent decline for condos.

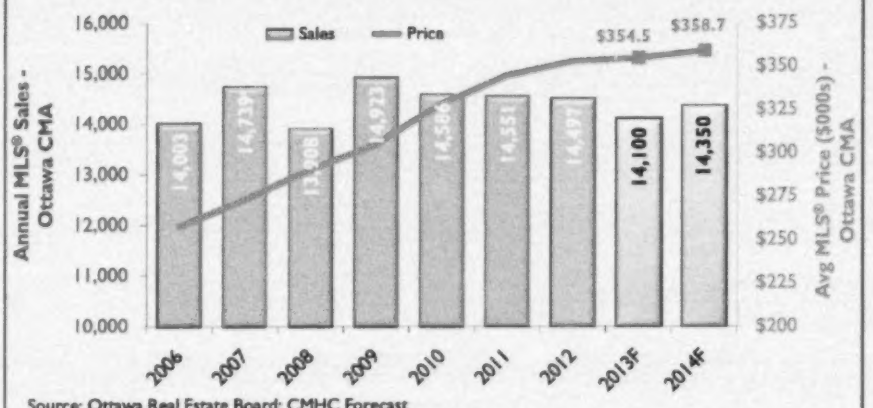
Given that freehold sales represent the bulk of all existing home sales in Ottawa, their deceleration will continue driving the overall sales moderation. The softening in demand will occur, given a moderation in first-time homebuyer activity and continued consumer uncertainty in the region. Although seasonally adjusted sales will follow a downward trend this year, 2014 will see some improvement in activity. Historically low mortgage rates and the stability of the Ottawa CMA employment picture should support move-up buyer and downsizers' activity over the forecast horizon.

Expected balanced market conditions and softer price growth

The supply side of the existing home market will remain solid. Listings for freehold homes have grown by 6 per cent through April this year, while condominium homes have increased by almost 16 per cent or 325 more units. Consequently, the sales-to-new listings ratio will trend downward this year, remaining in the cooler half of the balanced market territory range.

Figure 2

Price Growth will Decelerate as Demand Stabilizes



Source: Ottawa Real Estate Board; CMHC Forecast
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Given an expected improvement in sales activity next year, the sales-to-new-listings ratio will reposition itself halfway into balanced market territory, where there is approximately one house sold for every two listed.

This supply-demand environment will result in some relative flattening of prices this year, before rebounding at a stronger pace next year as sales begin to reach a similar rate of growth as listings. Expect prices to increase by 0.5 and 1.2 per cent this year and next. While prices are predicted to grow at a modest pace, required income to actual income will be maintained at a stable level this year as average household incomes will remain relatively healthy. The additional firming of prices into 2014 at a slightly higher rate than

Figure 3

Balanced Market Conditions will Prevail Going Forward

Source: CREA; CMHC Forecast ranges
* Seasonally adjusted. (MLS® is a registered trademark owned by the Canadian Real Estate Association)

household income will exert some modest pressure on affordability.

New Home Market

New home construction to trend lower

Expect total starts to decrease by 17 per cent this year and increase slightly in 2014. Following robust growth in new home building activity in 2012, housing starts this year are expected to retreat. Slower multiple family home construction will be driving the moderation, primarily due to a decline in apartment starts. Worthy of note is that although the number of apartment units this year will be lower than last year's record growth, this dwelling type will remain at a high level.

With the exception of semi-detached construction that will post positive growth, all the other lower density housing activity will moderate. Row construction will scale back considerably, while single-detached housing starts will decline at a relatively more moderate pace, remaining nonetheless below historical averages.

Single-detached home starts to recover market share in 2014

While the ongoing trend-shift away from single-detached housing starts toward multifamily dwelling units will continue to take place in Ottawa, single home construction will rebound slightly once more in 2014. Over the forecast horizon, single-detached home starts in the Ottawa CMA are not forecast to return to previous highs but will remain at or just below the 1,500 mark.

Contributing to the decline in single-family construction is the price gap between a new single-detached home and an existing one. Year-to-date, this gap is approximately 25 per cent, which may lead some buyers to shift to multi-dwelling units or opt for buying a single home on the resale market. Yet, the share of single-detached home starts will rise to approximately 30 per cent of the market from 26 per cent in 2012. Improving employment and income prospects into 2014 and expected continued growth in household formation will support this increase in market share.

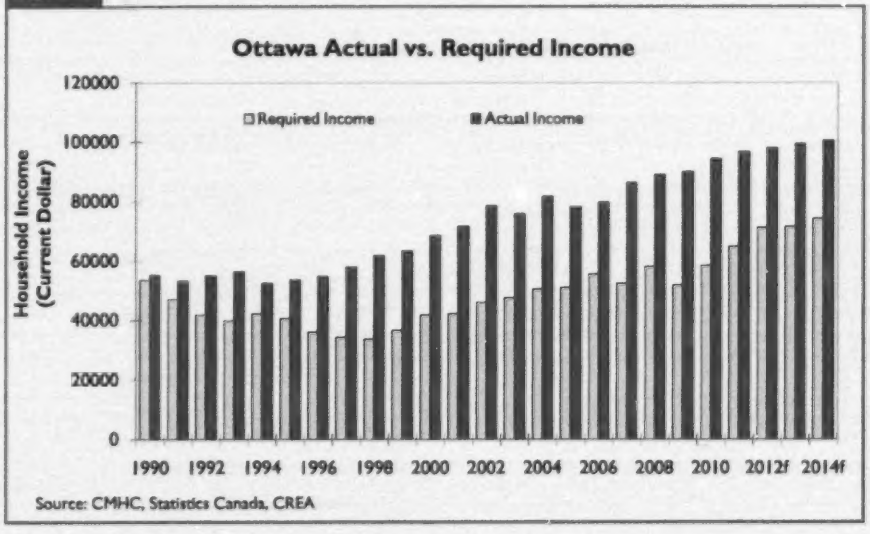
Baby boomers to support higher-density construction

Apartment construction will capture the largest portion of multi-dwelling activity, but should scale back from the unprecedented level seen this past year. With several condominium projects in the pipeline set to break ground this year, apartment starts are forecast to clock in at 2,000 units. Contrary to the strong apartment construction in 2012, row construction started trending down already in the past year, and is predicted to moderate further this year before picking up in 2014.

The demographic picture of the Ottawa CMA population, coupled with changing buyer preferences, city intensification efforts and affordability, are driving construction towards more high-density dwelling units.

Furthermore, the most recent Census showed that the 55+ age group grew strongest from the previous Census, with its share rising by 2 per cent to capture one quarter of total population. Many members of this age group demand maintenance-free multi-dwelling units. As a result, higher density home construction is gaining market share, both in the city core and in suburban areas, and single-detached starts are moving towards the outer city limits.

Figure 4



Economic Overview

Employment growth to remain stable

Employment is to remain resilient in the Ottawa CMA, but compared to the previous year will grow at a more modest pace in 2013 before accelerating in 2014. While the 2012 employment expansion was supported by growth in services, trade and construction, the Trade and IT sectors are expected to pick up the slack from softening growth in other sectors.

Even though growth is anticipated in the coming months, some remaining uncertainty with regard to the magnitude of federal job cuts in the capital will continue to weigh on business sentiment and hiring this year. However, as market sentiment improves in 2014, in both the U.S. and Ontario, local employment growth will rebound 1.9 per cent slightly surpassing the Ontario average.

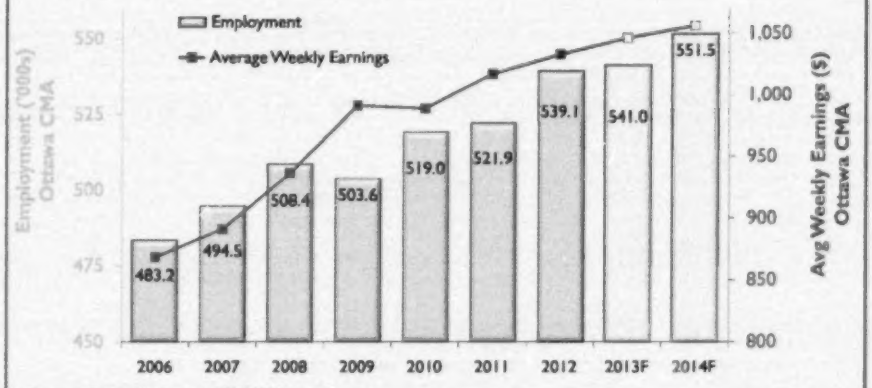
Supporting employment growth will be the coming online of the LRT project, the largest infrastructure project in Ottawa's history, with a budget of $2.1bn over 7 to 10 years. In addition, several other development projects will be underway by 2014 will give a boost to employment and consumption spending for small and big ticket items in the city. Finally, the City's "Ottawa-on-the-move" program will see $340 million of capital projects completed from 2012 to 2014 solidifying local employment growth.

Labour force to grow more rapidly by 2014

Labour supply is predicted to slightly outpace demand this year, with the labour force growing at a modest 0.6 per cent compared to 2012. As economic growth firms next year, more people will be attracted to enter the labour force, causing it to grow at a stronger pace at 1.7 per cent. As growth in employment surpasses the labour force expansion, the unemployment rate will trend down. Consequently, the unemployment rate will be 6.4 and 6.2 per cent for 2013 and 2014 respectively.

Figure 5

Stable Employment Growth Ahead



Source: Statistics Canada; CMHC Forecast

Average labour wages are forecast to grow, albeit at a slower pace this year compared to the last year as job applicants compete for a more limited amount of job postings. As the number of job seekers rises more strongly in 2014 compared to this year, there will be a more modest growth in average weekly earnings.

Ottawa migration to remain robust

Ottawa's fairly stable employment picture will support the capital city's pull for migrants. The LRT project will attract both experts and lower-skilled workers into the city over its lifespan. Ottawa's relatively higher average weekly earnings compared to some of the other CMAs will make it an attractive destination for job seekers from other provinces and many newcomers to Canada. In addition, it is anticipated that recent changes in the immigration policy towards a younger and more educated immigrant cohort would support in-migration into Ottawa boosting demand for homeownership. Overall, net migration is forecast to remain at solid levels this year and next.

Mortgage Rate Outlook

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication

of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Forecast Summary Ottawa CMA Spring 2013	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	2,302	2,134	1,592	1,485	-6.7	1,500	1.0
Multiples	4,144	3,660	4,434	3,515	-20.7	3,525	0.3
Semi-Detached	362	361	286	315	10.1	325	3.2
Row/Townhouse	1,928	1,826	1,379	1,200	-13.0	1,400	16.7
Apartments	1,854	1,473	2,769	2,000	-27.8	1,800	-10.0
Starts - Total	6,446	5,794	6,026	5,000	-17.0	5,025	0.5
Average Price ($):							
Single-Detached	431,729	478,292	482,586	505,266	4.7	516,500	2.2
Median Price ($):							
Single-Detached	419,990	455,990	461,900	472,518	2.3	482,000	2.0
New Housing Price Index (% chg) (Ottawa-Gatineau)	4.0	3.0	2.6	1.7	-	2.0	-
Resale Market							
MLS® Sales	14,586	14,551	14,497	14,100	-2.7	14,350	1.8
MLS® New Listings	25,061	25,949	28,332	30,000	5.9	28,000	-6.7
MLS® Average Price ($)	328,439	344,791	352,610	354,500	0.5	358,750	1.2
Rental Market							
October Vacancy Rate (%)	1.6	1.4	2.5	2.9	0.4	2.7	-0.2
Two-bedroom Average Rent (October) ($)	1,048	1,086	1,115	1,145	2.7	1,180	3.1
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	519,000	521,900	539,100	541,000	0.4	551,500	1.9
Employment Growth (%)	3.1	0.6	3.3	0.4	-	1.9	-
Unemployment rate (%)	6.5	5.6	6.2	6.4	-	6.2	-
Net Migration	10,035	7,796	7,800	10,000	28.2	9,000	-10.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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